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Guardian Capital Group Limited

Annual Report 1974

Financial Highlights

December 31st:	1968	1969	1970	1971	1972	1973	1974	1975†
Value of Managed Assets ($ millions)								
Pension fund portfolios	$ 4.6	$ 4.8	$ 6.5	$11.9	$ 35.6	$ 74.6	$ 82.3	$ 93.8
Mutual fund and private client portfolios	48.8	48.1	34.0	37.8	128.7	97.3	68.8	74.5
Total	53.4	52.9	40.5	49.7	164.3	171.9	151.1	168.3
Total per Guardian share outstanding	$74.20	$57.50	$36.20	$45.70	$122.00	$107.00	$ 94.03	$104.81
Value of Owned Portfolio Assets ($ millions)								
Gdn. Ventures Limited (Directors' valuation)	—	1.5	4.2	4.6	$ 5.5	$ 4.8	$ 2.9	3.2
Guardian Growth Financial Services Limited (market value)	—	—	—	—	0.5	2.6	2.7	3.2
Other tangible net assets	0.5	0.8	0.5	0.9	0.8	0.9	1.0	1.1
Total Tangible Net Assets (excluding the value of the earning power of the portfolio management subsidiaries)	$ 0.5	$ 2.3	$ 4.7	$ 5.5	6.8	8.3	6.6	7.5
Total per Guardian share outstanding	$ 0.70	$ 2.50	$ 4.33	$ 5.06	$ 5.06	$ 5.16	$ 4.10	$ 4.67
Revenues and Earnings								
Gross Revenues	$1,302,524	$ 672,024	$ 502,888	$1,217,384	$1,760,749*	$1,843,125*	$1,879,377*	—
Net Earnings	457,310	211,110	53,595	337,767	263,616*	505,018*	601,916*	—
Net Earnings per Guardian share outstanding	$ 0.64	$ 0.24	$ 0.05	$ 0.31	$ 0.22*	$ 0.32*	$ 0.37*	—
Year-end shares outstanding	720,000	920,000	1,087,000	1,088,610	1,346,778	1,606,528	1,606,528	—

*Fully consolidated
†March 31

To the Shareholders

Organization of the Business

Guardian Capital Group Limited is engaged, through subsidiaries, in the following main areas of activity: –

1 Management of investment portfolios for pension funds, mutual funds and private clients.

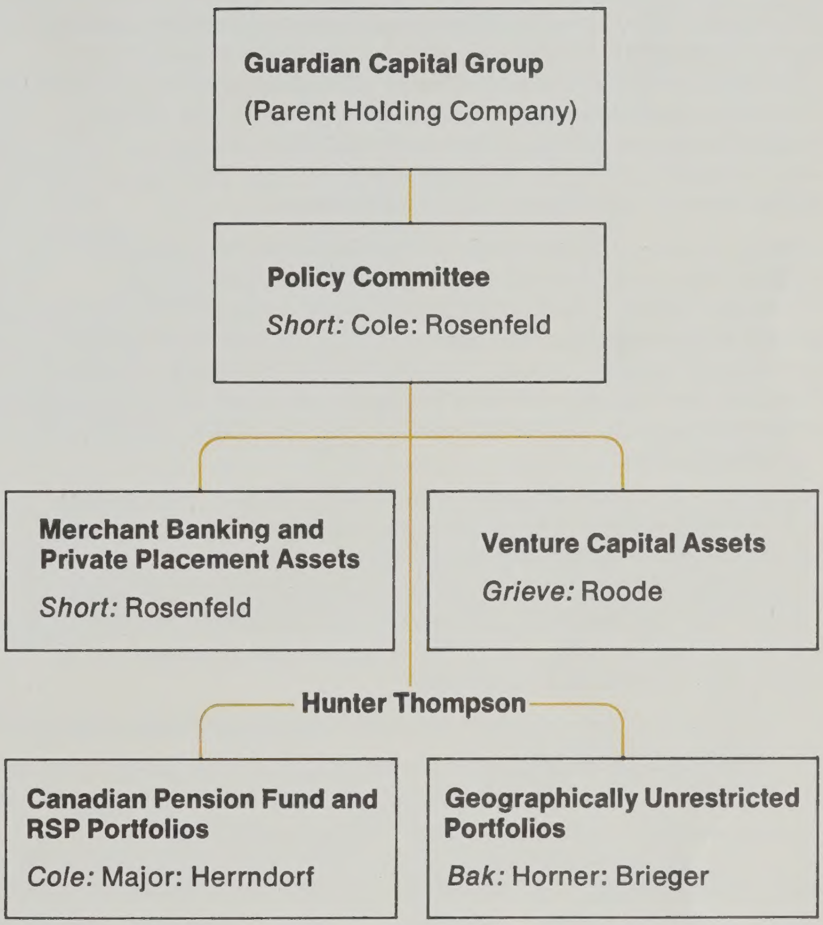
2 Investment of owned and associates' assets in venture capital situations.

3 Investment of owned assets in merchant banking and private placement situations.

For legal and registration reasons, our mutual funds are managed by one subsidiary company, while pension fund and private client portfolios are managed by another. Operationally, however, we have divided our client portfolios into two groups. Pension fund and retirement savings plan portfolios are required by law to be invested ninety percent in Canadian securities; these we call our "Canadian" portfolios, and they are managed by the team of Jim Cole, Rick Major and Kiki Herrndorf. Our other managed portfolios, owned by Canadian and foreign residents, are not geographically restricted in their investments. These we call our "free-to-roam" portfolios. They are managed by the team of John Bak, Ralph Horner and Peter Brieger. Both the "Canadian" team and the "free-to-roam" team are under the overall supervision of Hunter Thompson.

Our two "owned assets" subsidiaries continue to be managed with the same portfolio philosophy as before. Alan Grieve and Peter Roode are responsible for our venture capital investments; Norman Short and Gurston Rosenfeld are responsible for Guardian Growth Financial Services Limited, which makes our merchant banking and private placement investments.

We set out alongside, in graphic form, an organization chart of Guardian Capital Group Limited and its operations at the present time.



The Policy Committee

The Policy Committee is an important part of our organization. This group meets weekly, and has the responsibility for shaping our basic attitudes about the economic outlook for Canada, the U.S. and the world; it also has the responsibility for having a view on the likely outlook for interest rates and for the North American and world stock markets. To an increasing extent in recent years, the policy committee has also been interested in the relative movements of currencies and in the movements in commodity prices. The Policy Committee decides the appropriate mix between fixed income and equity portfolios for pension funds, and sets appropriate cash reserves for all equity portfolios.

Financial Results in 1974

The numbers in the table "Financial Highlights" which appears at the front of our annual report show the main trends of our activities in recent years. The value of managed pension fund portfolios continues to show significant growth: the value of mutual fund and private client portfolios show a more erratic trend. Overall, in the period ended March 31st, 1975, an uptrend in the value of managed portfolios is evident.

Owned assets, which include working capital, our share (89%) of Gdn. Ventures Limited, and 100% of Guardian Growth Financial Services, but which *exclude* any value for the earning power of the portfolio management subsidiaries, have shown substantial growth overall, but a decline in the latest two-years. This decline results from falls in the values of our venture capital investments; we comment at greater length on this subsidiary's activities below.

Net earnings have shown a rather erratic pattern. The results from 1972 onwards reflect full consolidation of all subsidiaries, including Gdn. Ventures Limited, while those prior to 1972 do not consolidate Ventures. They are not, therefore, fully comparable. Since 1972, net realized capital gains and losses show in reported earnings, and in 1973 and 1974 net capital gains comprised a significant portion of net earnings.

A breakdown of our reported net earnings by activity in the last two years is as follows: –

	1974		1973	
	$	%	$	%
Merchant Banking	289,587	48.1	29,186	5.8
Portfolio Management	306,902	51.0	263,498	52.2
Venture Capital	5,427	0.9	212,334	42.0
	601,916	100.0	505,018	100.0

Our comments on these activities follow.

Merchant Banking and Private Placement Investing

This activity is carried out by our wholly-owned subsidiary Guardian Growth Financial Services Limited (G.G.F.S.) which is run by Norman Short and Gurston Rosenfeld.

The recent market value of the portfolio by quarters has been as follows: –

December	31st, 1973	$2,585,300
March	31st, 1974	$3,482,300
June	30th, 1974	$2,871,400
September	30th, 1974	$2,529,900
December	31st, 1974	$2,735,100
March	31st, 1975	$3,245,000

As noted earlier in this report, this subsidiary contributed $289,587 to Guardian Capital's net earnings. A major part of this net realized gain was achieved by the sale of gold bullion purchased as a long-term investment in 1973 at a price close to $100 per oz. During the first quarter of 1974, however, gold bullion made such a dramatic, quick and substantial advance in price that we considered it only prudent to sell a part of our investment position. This was done at a price above $170 per oz.; the remainder of the investment in gold bullion continues to be held in the portfolio, and still comprises a significant portion of it.

During the course of the year, Guardian Growth Financial Services Limited completed its proposed investment in Newmark Resources Limited. This company is in the oil and gas business, and is run by Art Klimchuk and his team. Art was formerly with Quasar Petroleum Limited. As a result of the unsettling Federal-Provincial infighting about resource taxation, Newmark has so far very prudently confined its land acquisition programme to the United States. Farmouts on some of the assembled acreage were arranged in the latter part of 1974, and two discoveries with significant potential have been drilled on the company's land. These successes have lent assistance to the raising of money under the Newmark American 1975 drilling fund programme. We are optimistic about the exploratory and financial future of Newmark.

Guardian's co-operative programme with Derry, Michener and Booth, has now born fruit in the acquisition and financing of Auric Resources Limited (formerly Consolidated Nicholson Mines Limited). This company, which is controlled by Guardian and partners of Derry, Michener and Booth, is working with International Minerals and Chemical Corporation (Canada) Limited, and with other major mineral and petroleum companies in the investigation of gold prospects, and in the acquisition and investigation of uranium prospects in Canada, the U.S. and overseas. We believe that Auric Resources is a very interesting low risk, high potential participation for Guardian.

In these days of very volatile markets, there are substantial opportunities for a relatively small portfolio, which is not encumbered with legal or emotional constraints. Some of these opportunities are in paper securities, such as stocks and bonds; some are in commodities; some are in gold, which is perhaps the only real *money* available today; and some are in currencies which are fluctuating relative to each other in an unusual and interesting way. Guardian Growth Financial Services intends to pursue its goal of profit in any and all of these activities.

Client Portfolio Management

As discussed earlier, these activities are carried out by two subsidiaries, Mutual Funds Management Corporation of Canada Limited, and Guardian Capital Investment Counsel Limited (formerly called Norman Short and Associates Limited). These two subsidiaries are under the overall supervision of Hunter Thompson.

Pension fund portfolios are the largest and the most rapidly growing segment of this business at present but "free-to-roam" portfolios are significant, interesting and profitable. The relevant statistics appear in the "Financial Highlights" table.

Investment performance in 1974 was relatively good. This reflected the very defensive position we took in both fixed income and equity portfolios. Ownership of gold bullion, where permitted by law, contributed materially to results. We felt obliged to reduce somewhat the gold bullion position at the very end of the year, as the result of the run-up in price which occurred at that time. We believe, however, that all portfolios free to do so should own at least 10% in gold bullion as an insurance policy against financial collapse or hyper-inflation, and as a statement of belief that wisdom and common sense will eventually break through even into the mind of the U.S. Treasury, and that gold will re-assume its rightful place as the cash backing of paper currency I.O.U.'s which currently are being produced almost everywhere far faster than real growth requires, and which are therefore, round the world, steadily or rapidly losing their value.

In any event, in 1974, the combination of defensive investment and the holding of gold bullion produced above-average results, which resulted in our earning significant performance bonuses.

In 1972 we converted one of our funds into Guardian World Equity Fund. Our idea was that this fund should be able to invest in equity markets round the world. After considerable research into the world-wide investment expertise of many well-known firms in the U.K. and elsewhere ,we established a relationship with a U.K. based research and portfolio management group called G.T. Management Limited. This group has a Hong Kong affiliate called Hutchison-G.T. The group manages assets approaching $200 million. Our intention was that, at the right time, we would place a portion of our clients' portfolios into Guardian World Equity Fund and that each client would, in this way, efficiently, cheaply, and quickly achieve exposure of his portfolio to world-wide opportunities.

Our friends and advisors, G.T. Management, were as bearish as we were throughout 1974, and we saw no need then to make the investment move. We believed that the right time had come in early 1975, however, and therefore invested about 5% of nearly every client portfolio in Guardian World Equity Fund. The fund, in turn, is invested currently as follows:–

Japan	$2,698,200	33.2%
U.S.	1,361,660	16.8%
Germany	581,104	7.1%
France	524,541	6.4%
Australia	499,340	6.1%
Hong Kong	351,567	4.3%
Gold	323,079	4.0%
U.K.	263,405	3.2%
Singapore	230,220	2.8%
South Africa	161,434	2.0%
Switzerland	94,542	1.2%
Philippines	33,274	0.4%
Cash . . .	1,021,470	12.5%
	$8,143,836	100.0%

Guardian World Equity Fund now has assets of $8,143,836 and is an exciting investment vehicle in its own right. The fund is available for purchase by clients through registered investment dealers.

Gdn. Ventures Limited

The year 1974 was not a good one for the venture capital industry. New money was almost impossible to raise and the market for public issues of small companies disappeared. Considerable price erosion took place in the quotations of most public companies including those we hold, which are M.D.S., I.W.C. and Keydata.

Our largest holding, Digital Telephone Systems Inc., (D.T.S.) suffered a small loss during 1974; your directors decided to make an adjustment in the valuation of D.T.S. shares from $12 per share to $7.37 per share in order to maintain a more realistic valuation of these shares in relation to publicly quoted securities.

The results of these events was a decline in your directors' valuation of the portfolio to $3.2 million from $5.37 million in 1973.

At year end about 80% of Ventures' assets were in three investments, which are reviewed below:–

M.D.S. Health Group Limited in which ventures holds a 20% equity position, had a good year, reporting 37¢ per share from continuing operations on sales of $15.8 million.

Offsetting this, the company took a non-recurring writedown of 18¢ per share to more truly reflect the value of the company's investment in the pharmaceutical business. In the first quarter of 1975, the company reported 10¢ per share, versus 9¢ in 1974. Future plans encompass continuing growth in the health care field.

Digital Telephone Systems Inc. in which company we own 31% of the equity, achieved sales of $5.7 million, significantly below its budget. On these sales a loss of $130,000 was reported. Both the loss and the lower than budgeted sales are the result of the company's PABX (electronic digital telephone switching system for offices using 100 to 500 lines) programme being behind schedule. Without this drain on profitability, the company would have earned $300,000. On the positive side, the PABX is now operational and the company has signed a major distribution contract with Executone involving tens of millions of dollars of PABX sales over the next few years.

We anticipate that the company will return to profitability in the second quarter of 1975, and we are optimistic about its future prospects with its range of technologically superior products aimed at the very large telecommunications market.

I.W.C. Communications Limited – 1974 was an eventful year for I.W.C. in that it took over management of Global Communications, the new entry in the TV business in Ontario which got into financial difficulties during the early part of 1974. In order to help effect this rescue operation, I.W.C. sold 2,415,679 shares via a rights issue to raise $2,898,800. Ventures participated in this rights issue to the extent of raising its holding by approximately 70,000 shares.

The long term future of I.W.C. is dependent on the success of Global. Early indications are encouraging and the company is assisted by the moves of the Federal Government in encouraging the diversion of advertising from U.S. television stations to Canadian broadcasters.

The only other investment made in 1974 was $50,000 in Instinet; this, with the warrants that were attached, gives us the possibility of a significant stake in the company (13%). Instinet had a loss last year of $108,000, and suffered from the general malaise of the securities business. Currently the company is profitable, having just effected some personnel changes and a major price revision. Your management is optimistic about the future of Instinet, especially since the company has been able to weather a very bad period in the securities business, and is still continuing to gain new clients.

Other Activities

We have mentioned in previous reports that we are interested in establishing an affiliate joint venture in the West. We have by no means abandoned this project, and may have something specific to announce in due course. We are also working with a European and an Asian group with the objective of the possible establishment of a joint venture in the Middle East. We will also report on this project again, if and when it becomes more specific.

Investment Outlook

The recession we anticipated last year is now with us. Politicians and newspaper-writers are angry about it. Financial markets, having anticipated it, do not need to discount it again.

We believe that the recession will be somewhat longer and deeper than the current consensus forecast suggests. Canada, as a lagging economy, will experience its recession slightly later than the U.S.

Because the recession will be deeper than expected, inflation will abate more than expected. Commodity prices are weak and inventory liquidation has started.

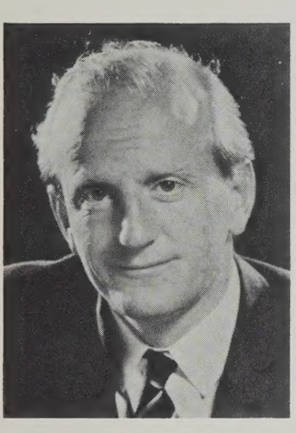
Also because the recession will be deeper than expected, Governments round the world will make effort after effort to reflate and "get the economy rolling again". This will produce, at first, excess liquidity for high grade instruments, later an economic recovery, and later again inflation at probably more rapid rates than those reached at the just-passed cyclical peak.

It is possible that some real problems will be faced. These include inadequate incentives for enterprise to reinvest in new plant, inadequate incentives for people to work and to save, an inequitable tax system which taxes unreal income and imaginary capital gains, and excessive political and bureaucratic interference in personal and corporate life. We do not yet see any signs of this realism in Canada. It is said that people get the Government they deserve. In which case we in Canada, in common with nearly all the Western world, have Governments elected by a corrupt political process, where the voter is bribed with his own money, and where political "realism" requires that programmes go ahead which please people and buy votes, whereas other, more worthwhile programmes, lie on the drawing board because they do not have mass appeal. Investment processes which ignore these realities are blind or self-deceiving. We do not like the realities, but we do not intend to ignore them.

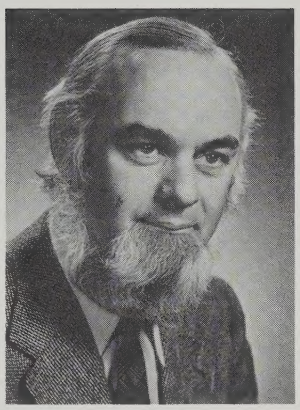
On behalf of the Board,
Yours sincerely,

Norman Short

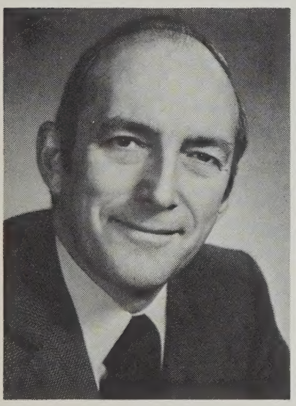
The Guardian Group



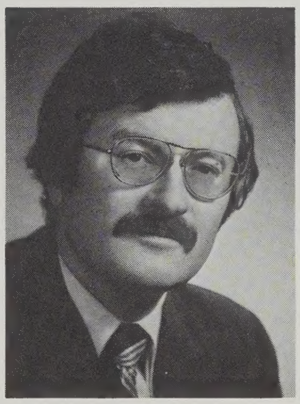
Norman J. Short. Born in London, England, in 1930. Educated at Fettes College, Edinburgh and Worcester College, Oxford. Business activity includes Confederation Life Association, Andreae, Cole and Company, and Bache and Company.
Norman Short is one of the founders of Guardian and is President of the Company.



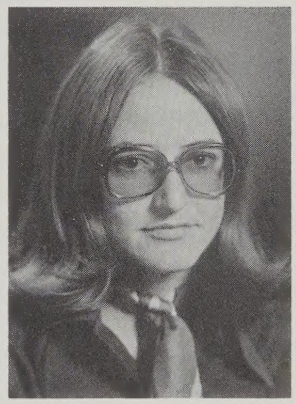
Hunter Thompson. Born in Toronto in 1932. Educated at Trinity College School, Port Hope and the University of Toronto. Business activity includes The Scudder Fund of Canada, Andreae, Cole and Company, and The Canada Trust Company.
Hunter Thompson co-founded Guardian Capital Investment Counsel Limited in 1965 and is the President of our client portfolio management subsidiaries.



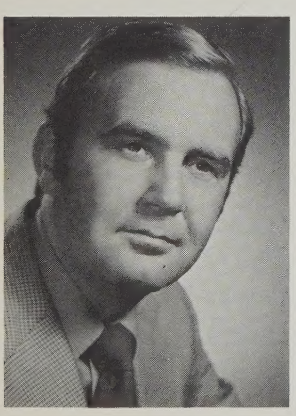
James F. Cole. Born in Toronto in 1925 and graduated from the University of Toronto in 1948. Business activity includes Empire Trust Company, New York, Andreae, Cole and Company Limited, and Elliott and Page Limited.
Jim Cole is in charge of all our pension fund managed portfolios.



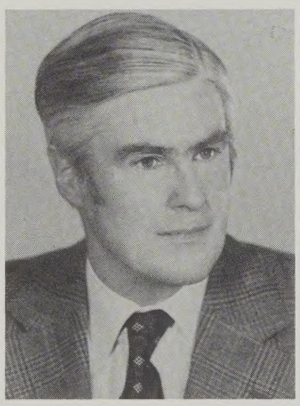
C. Richard Major. Born in Montreal in 1936 and graduated from McGill University in 1958. Business activity includes the Royal Trust Company in the personal trusts and pension fund departments, and M.G.F. Management Limited.
Rick Major works closely with Jim Cole in the management of Canadian pension fund portfolios.



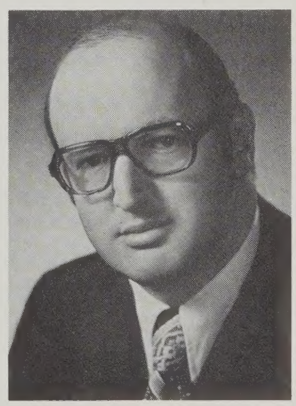
Catherine Herrndorf. Born in Winnipeg in 1949 and graduated from the University of Manitoba in 1969. Business activity includes an international investment dealer and M.G.F. Management Limited. Kiki specializes in the analysis of Canadian securities, and works with Jim Cole and Rick Major on the management of pension fund portfolios.



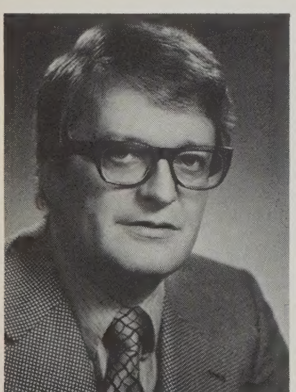
John Bak. Born in Rotterdam, The Netherlands, in 1939. Business activity includes The Canadian Imperial Bank of Commerce, Pacific Finance Corporation, and Midland-Osler Securities Limited.
John Bak joined Guardian in 1969 and is the team leader of our "free-to-roam" portfolio management group.



Ralph Horner. Graduated from Oxford University with a degree in Engineering in 1949. Business activity includes Central Electric Wire Limited, Andreae, Cole and Company, Wisener & Co., and United Funds Management Limited.
Ralph Horner is one of the founders of Guardian and is Vice-President of the Company.

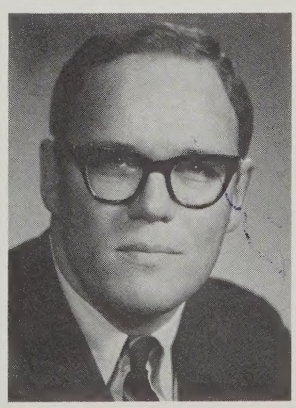


Peter A. Brieger. Born in England in 1937 and educated at U.T.S. and the University of Western Ontario. Peter worked with Fry Mills Spence in both Toronto and London, England, and then joined Guardian in 1974, where he works with Ralph Horner and John Bak on our geographically unrestricted portfolios.



Alan Grieve. Born in London, England, in 1933. Educated at Whitgift and graduated as a Chemical Engineer from the Imperial College of Science and Technology, London University. Business experience includes engineering development work with Polymer Corporation, and technical marketing and management responsibilities with W. R. Grace of Canada.
Alan is one of the founders of Guardian, and is President of our venture capital subsidiary.

Gurston Rosenfeld. Born in Toronto in 1927. Educated at Upper Canada College and the University of Toronto. Business activity includes Famous Players Canadian Corp. Ltd., Royal Securities Corporation Limited and R. A. Daly and Company Limited.
Gurston joined Guardian in 1967 and works with Norman Short on Guardian Growth Financial Services Limited.



Peter E. Roode. Born in Brockville, Ontario, in 1937. Educated at Queen's University (B.Comm) and the University of Western Ontario (M.B.A.). Business activity includes McDonald Currie & Co., Charterhouse Canada Limited, and Rogers Broadcasting Ltd.
Peter Roode is Secretary-Treasurer of the Company, and works with Alan Grieve on venture capital investments.

Guardian Capital Group Limited and Subsidiary Companies

Consolidated Balance Sheet

as at December 31, 1974

	1974	1973
Assets		
Investments (Notes 1, 2 and 4) –		
Venture capital	**$ 3,060,233**	$ 2,888,137
Merchant banking	**1,231,739**	1,075,628
Associated company	**43,222**	–
Other	**51,684**	120,434
	4,386,878	4,084,199
Cash and short-term deposits	**3,087,851**	3,043,440
Receivables	**460,091**	187,541
Prepaid expenses	**41,477**	33,269
Fixed assets (Note 3)	**126,481**	90,231
Deferred selling costs (Note 1)	**90,930**	121,450
Goodwill – at cost (Note 1)	**2,759,736**	2,759,736
	$10,953,444	$10,319,866
Liabilities		
Accounts payable and accrued expenses	**$ 142,368**	$ 119,693
Dividend payable	**240,979**	80,326
Income taxes –		
Currently payable	**216,812**	38,140
Deferred (Note 1)	**66,949**	76,075
Long-term debt (Note 5)	**175,000**	225,000
	842,108	539,234
Minority shareholders' interest in subsidiaries	**401,985**	390,388
Shareholders' Equity		
Capital stock (Notes 6 and 7):		
Authorized – 3,000,000 shares without par value		
Issued and fully paid – 1,606,528 shares	**7,468,465**	7,468,465
Contributed surplus	**414,177**	413,257
Retained earnings	**1,826,709**	1,508,522
	9,709,351	9,390,244
	$10,953,444	$10,319,866

The accompanying notes are an integral part of this financial statement.

Signed on behalf of the board

Norman J. Short – *Director*

Hunter E. Thompson – *Director*

Consolidated Statement of Earnings

for the year ended December 31, 1974

	1974	1973
Income		
Management fees (Note 1) –		
Basic	**$1,233,218**	$1,465,271
Supplementary	**261,510**	40,624
Sales charges (Net)	**48,770**	107,737
Interest and dividends	**335,879**	229,493
	1,879,377	1,843,125
Operating expenses	**1,168,349**	1,280,250
	711,028	562,875
Net gain on investments (Note 2)	**314,015**	260,211
	1,025,043	823,086
Provision for income taxes		
Current	**450,485**	329,430
Deferred	**(9,126)**	(8,425)
	441,359	321,005
	583,684	502,081
Equity in net earnings of associated company	**19,729**	–
	603,413	502,081
Minority interest	**1,497**	(2,937)
Net earnings for the year	**$ 601,916**	$ 505,018
Earnings per share (Note 8)	**37¢**	32¢

The accompanying notes are an integral part of this financial statement.

Guardian Capital Group Limited and Subsidiary Companies

Consolidated Statement of Retained Earnings

for the year ended December 31, 1974

	1974	1973
Balance – Beginning of year	**$1,508,522**	$1,083,830
Net earnings for the year	**601,916**	505,018
	2,110,438	1,588,848
Dividends (Note 11)	**240,979**	80,326
Tax paid on undistributed income (Note 11)	**42,750**	–
	283,729	80,326
Balance – End of year	**$1,826,709**	$1,508,522

Consolidated Statement of Contributed Surplus

for the year ended December 31, 1974

	1974	1973
Balance – Beginning of year	**$ 413,257**	$ 60,000
Issue of Company's share purchase warrants	**–**	96,600
Issue of subsidiary's share purchase warrants	**920**	–
Excess of minority shareholders' investment in subsidiary over their share of the net book value	**–**	256,657
Balance – End of year	**$ 414,177**	$ 413,257

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Net Assets

for the year ended December 31, 1974

	1974	1973
Net assets – Beginning of year	**$ 9,780,632**	$ 6,629,354
Increased by –		
Net earnings for the year	**601,916**	505,018
Minority interest in earnings	**1,497**	(2,937)
Issue of Company's shares	**–**	2,084,950
Issue of subsidiaries' shares to minority shareholders	**10,100**	649,982
Issue of share purchase warrants	**920**	96,600
	614,433	3,333,613
Decreased by –		
Dividends	**240,979**	80,326
Tax paid on undistributed income	**42,750**	–
Acquisition of minority shareholders' interest in subsidiary	**–**	102,009
	283,729	182,335
	330,704	3,151,278
Net assets – End of year	**$10,111,336**	$ 9,780,632
Represented by:		
Shareholders' equity	**$ 9,709,351**	$ 9,390,244
Minority shareholders' interest in subsidiaries	**401,985**	390,388
	$10,111,336	$ 9,780,632

The accompanying notes are an integral part of this financial statement.

Guardian Capital Group Limited and Subsidiary Companies

Consolidated Statement of Merchant Banking Investments

as at December 31, 1974

	1974			1973		
	Number of Shares or Par Value	**Average Cost Less Allowance for Losses**	**Quoted Market Value**	Number of Shares or Par Value	Average Cost Less Allowance for Losses	Quoted Market Value
Gold						
Gold (ounces)	2,000	$ 209,194	$ 363,800	4,785	$ 500,505	$ 535,920
Chibex – 12% note due December 31, 1977 together with 60,000 warrants exercisable at $1.50 to December 31, 1977	$100,000	100,000	* 100,000	–	–	–
Units – S.F. debts. and shares	–	–	–	80	76,385	84,800
Bulora Corporation	72,000	72,000	97,920	100,000	100,000	140,000
Consolidated Professor Mines	–	–	–	100,000	71,400	77,000
		381,194	561,720		748,290	837,720
Energy and other natural resources						
Newmark Resources	600,000	547,750	312,000	100,000	75,000	92,000
Consolidated Nicholson Mines	519,000	16,500	49,305	–	–	–
Others	–	46,075	42,100	–	–	–
		610,325	403,405		75,000	92,000
Miscellaneous						
Ziebart Corporation – 9% debs., December 31, 1977	$100,000	100,000	* 100,000	$ 100,000	100,000	* 100,000
Shares	25,000	42,633	15,000	25,000	42,633	37,500
National Medical Enterprises "A"	7,300	85,389	32,541	7,300	85,389	58,400
Others	–	12,198	38,140	–	24,316	17,600
		240,220	185,681		252,338	213,500
Total merchant banking investments	–	1,231,739	1,150,806	–	1,075,628	1,143,220
Cash and other net assets – attributable to merchant banking operation	–	1,584,309	1,584,309	–	1,442,067	1,442,067
Total merchant banking net assets		$2,816,048	$2,735,115		$2,517,695	$2,585,287

*These investments have been valued at cost

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Venture Capital Investments

as at December 31, 1974

	1974			1973		
	Number of Shares or Par Value	**Average Cost Less Allowance for Losses**	**Unaudited Directors' Valuation (Note 4)**	Number of Shares or Par Value	Average Cost Less Allowance for Losses	Unaudited Directors' Valuation (Note 4)
Digital Telephone Systems –						
Shares	**220,647**	**$1,626,207**	**$1,626,207**	200,647	$1,485,686	$2,407,764
Warrants	**–**	**–**	**–**	20,000	100,937	200,000
MDS Health Group –						
Shares	**433,703**	**494,963**	**607,184***	433,751	495,018	1,301,253*
Debs. – 10% 1975	**$ 97,493**	**97,493**	**97,493**	$ 97,493	97,493	97,493
Note – 31/03/85	**–**	**62,500**	**62,500****	–	–	–
I.W.C. Communications	**302,191**	**309,627**	**290,103***	233,335	200,000	513,333*
Instinet –						
Shares	**26,500**	**270,898**	**66,250**	16,500	227,725	82,500
Warrants	**20,000**	**4,797**	**–**	–	–	–
Keydata Corporation	**20,333**	**163,748**	**42,801***	20,333	163,748	96,582*
Canapharm Industries	**–**	**–**	**–**	125,000	62,500	62,500
Other		**30,000**	**30,000**		55,030	44,350
Total venture capital investments		**3,060,233**	**2,822,538**		2,888,137	4,805,775
Cash and other net assets – attributable to venture capital operation		**395,102**	**395,102**		566,627	566,627
Total venture capital net assets		**$3,455,335**	**$3,217,640**		$3,454,764	$5,372,402

*Equivalent to quoted market value.

**Repayment contingent upon earnings of MDS subsidiary.

The accompanying notes are an integral part of this financial statement.

Guardian Capital Group Limited and Subsidiary Companies

Notes to Consolidated Financial Statements

for the year ended December 31, 1974

1 Summary of Significant Accounting Policies

(a) *Principles of consolidation*

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

(b) *Associated company*

The Company has used the equity method of accounting to reflect in its earnings its equity in the net earnings of a 50% owned company. This investment is carried on the balance sheet at cost plus the Company's share of the undistributed earnings since acquisition. (See Note 2(c)).

(c) *Goodwill*

The excess of cost of shares in subsidiaries over the net book value of the assets acquired is carried in the accounts at cost until such time as its value is considered to be impaired.

(d) *Deferred selling costs*

The deferred selling costs represent the unamortized cost of prepaying the Company's obligations under long-term sales contracts. These costs are being amortized over the period which remained under these contracts at the time of their renegotiation. The amortization amounted to $30,520 and $5,150 in 1974 and 1973 respectively.

(e) *Income taxes*

The companies have deferred to future periods the income tax resulting from claiming deductions for tax purposes in excess of the amounts charged in the accounts. The deferred tax applies principally to the deferred selling costs referred to in 1(d).

(f) *Management fees*

The Company and certain subsidiaries provide management and investment advisory services to mutual funds and investors on a contract basis in consideration for management fees.

Under some contracts the companies are entitled to earn supplementary fees if the managed portfolio outperforms certain stock market averages.

The income from fees is recognized in the accounts on a time basis over the periods of the contracts.

2 Investments

(a) All investments, except for the investment in associated company referred to in 2(c), are recorded at average cost, less an allowance for losses. The allowance for losses relates to those investments which are considered to have declined in value and show no reasonable expectation of recovery.

The net gain on investments reflected on the earnings statement represents the realized gains and losses on investments sold less the provision for losses for the year.

(b) Details of publicly quoted investments included in investments are as follows:

	1974	1973
Cost	**$2,000,077**	$1,834,394
Market value	**$1,890,894**	$2,954,388

(c) During 1974 the Company sold a 50% interest in a wholly-owned subsidiary. It now carries its investment in this associated company on the equity basis, as described in Note 1(b).

3 Fixed Assets

	1974	1973
Furniture and equipment – at cost	**$ 158,999**	$ 114,915
Leasehold improvements – at cost	**72,904**	66,433
	231,903	181,348
Accumulated depreciation	**105,422**	91,117
	$ 126,481	$ 90,231

The depreciation and amortization expense for 1974 and 1973 was $16,257 and $16,038 respectively.

4 Unaudited Directors' Valuation of Venture Capital Investments

The directors' valuation represents the value as determined by the directors of Gdn. Ventures Limited (the venture capital subsidiary) using the following guidelines:

(a) Each unquoted security is valued at a figure considered to be fair and reasonable but which in no case exceeds the highest of:

(i) Cost

(ii) In the case of companies which have had earnings in each of the past two years, at an appropriate multiple of their equity in the average earnings for those years.

(iii) The last sale price of the same securities as those held by them when such securities are sold in significant quantity to knowledgeable investors, subsequent to their investment in them.

(b) Each quoted security is valued at quoted market price which is the closing sale price or, If the stock is not actively traded, the average of the closing bid and asked prices. If the securities owned are not readily marketable due to escrow requirements, size of holding or other restrictions on sale, an appropriate discount is applied.

5 Long-term debt

The long-term debt consists of $175,000 7½% subordinated convertible debentures of a subsidiary company, Mutual Funds Management Corporation of Canada Limited, due January 10, 1978.

These debentures are secured by a floating charge on the assets of Mutual Funds Management Corporation of Canada Limited and are convertible at the holders' option into shares of Guardian Capital Group Limited on the basis of $9.20 per share or, if called for redemption by the Company before the due date, on the basis of the lesser of $9.20 per share or 85% of the quoted market price per share at the date of conversion. The interest expense with respect to the debt was $16,824 and $19,610 in 1974 and 1973 respectively.

6 Share purchase warrants

As at December 31, 1974 97,280 authorized but unissued shares of the Company's capital stock were reserved for issuance upon the exercise of share purchase warrants as follows:

Number of Warrants	Price per Share	Exercisable on or Before
20,000	$7.00	April 30, 1977
77,280	$8.00	December 31, 1983

7 Employee stock options

76,590 authorized but unissued shares of the Company's capital stock are reserved for allotment under the Company's employee stock option plan. As at December 31, 1974 options, exercisable at $5.00 per share, were outstanding on 35,750 and 20,000 shares expiring December 31, 1979 and December 31, 1982 respectively, of which options covering 49,706 shares were exercisable as of December 31, 1974, the remainder becoming exercisable over future years.

8 Earnings per share

The earnings per share calculations are based on the weighted average number of shares outstanding during the year. Fully diluted earnings per share are not materially different from the basic earnings per share.

9 Long-term lease commitment

Minimum annual rentals, under a lease agreement which terminates on August 31, 1982, are approximately $54,000 for the years 1975 to 1977 and $57,000 for the years 1978 to 1982.

10 Losses available for income tax purposes

Gdn. Ventures Limited, a wholly-owned subsidiary, has unused accumulated non-capital losses for income tax purposes of approximately $192,000, the details of which are as follows:

Year Incurred	Expires	Amount
1970	1975	$ 37,000
1971	1976	30,000
1972	1977	35,000
1973	1978	87,000
1974	1979	3,000
		$192,000

As at December 31, 1974 Gdn. Ventures Limited had also incurred net capital losses of $89,000, which can be carried forward indefinitely against taxable capital gains.

11 Dividends

During 1974, the Company paid the special 15% tax to create tax-paid undistributed surplus on hand from which tax paid dividends were declared. The taxes paid and dividends declared were $42,750 and $240,979 respectively. The 1973 dividends were taxable.

12 Remuneration of directors and senior officers

The aggregate remuneration of directors and senior officers for the year ended December 31, 1974 was $262,333 (1973 – $295,028).

Auditors' Report To The Shareholders of Guardian Capital Group Limited

We have examined the consolidated balance sheet and the consolidated statements of merchant banking investments and venture capital investments (other than the column headed "unaudited directors' valuation") of Guardian Capital Group Limited and subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in net assets for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements (except for the column in the statement of venture capital investments headed "unaudited directors' valuation") present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their net assets for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Included in the consolidated statement of venture capital investments are figures described as "unaudited directors' valuation". These figures are not susceptible to substantiation by auditing procedures since they are based on the subjective estimates by the directors of Gdn. Ventures Limited of the value of each investment as explained in Note 4. Accordingly, we are unable to and do not express an opinion on these values.

Smith, Nixon & Co.
Chartered Accountants

Toronto, February 3, 1975

Guardian Capital Group Limited

48 Yonge Street, Toronto, Ontario M5E 1G6

Officers and Directors
James F. Cole, *Director*
Alan Grieve, *Vice-President and Director*
Paul B. Helliwell, *Director*
Ralph Horner, *Vice-President and Director*
Robert L. Miller, *Director*
Gurston Rosenfeld, *Director*
Norman J. Short, *President and Director*
Hunter E. Thompson, *Director*
Roger D. Wilson, *Director*
Peter E. Roode, *Secretary-Treasurer*
Bernice Wade, *Assistant Secretary*

Registrar and Transfer Agent
The Canada Trust Company
110 Yonge Street, Toronto, Ontario

Banker and Custodian of Securities
The Canadian Imperial Bank of Commerce
7 King Street East, Toronto, Ontario

Auditors
Smith, Nixon & Co.
372 Bay Street, Toronto, Ontario

Legal Counsel
Day, Wilson, Campbell
250 University Avenue, Toronto, Ontario

Guardian
Capital Group
Limited

48 Yonge Street
Toronto, Ontario, Canada
M5E 1G6
Telephone: (416) 364-8341
Telex: 06-217604
Cable: Guard Cap, Toronto

14th May, 1975

To The Shareholders:

The good intermediate move referred to in our report of January 27th has been very much under way so far this year. Stock markets round the world have been very strong, with some of the greatest rebounds occurring in those which had been particularly weak last year. Fixed income markets in North America, on the other hand, topped out early in 1975, and have been worrying about the timing of a resurgence of inflation and about the ease of financing projected large Government deficits. Inflation rates have been declining as commodity prices have fallen, and as inventories have been liquidated. Business has, of course, been weak but is now showing signs of bottoming out.

Guardian's managed assets have shown good growth in the first quarter. Client portfolio assets managed have increased from $151.1 million as at December 31st 1974 to $168.3 million as at the end of the first quarter, while Guardian Capital's own portfolio assets have risen from $6.6 million at year-end to $7.5 million at March 31st 1975. Operating earnings so far in 1975 are quite similar to those earned in the same period last year; realized capital gains in the first quarter, however, were below those realized in the same period of 1974.

Some pessimistic humourist, jaded by those mistaken optimists who are forever seeing improvement ahead, is reported to have said "Will the last person through the tunnel please turn out the light". Today, in Spring 1975, we are basking in unaccustomed financial market sunshine, particularly in those countries which have managed their affairs relatively well in the last two or three years. Nevertheless, participants in financial markets, conditioned by several bad years since 1968, are all anxiously looking for rain clouds. It is said that all bull markets climb a wall of worries, and only end when most people are diverted from their worries to their hopes and opportunities. We believe that this time is not yet, especially in major world equity markets such as that of Japan (the world's third largest economic power) and that of the U.S.

We do, however, have a rather particular unease about economic conditions in Canada. Our inflation rate is higher than that of most of the rest of the world (in spite of our low-priced oil); our trade deficit is very large by historical standards and proportionately; our currency is weak; and we have tried our best to alienate our major trading partner, the U.S., on whom we rely for vital coal, unhampered transfer of most of our oil, and last but not least for money which is a major source of finance for our provinces and our utilities. The growth of Canadian nationalism is an interesting and understandable development; but we have certainly chosen an interesting time to become quite so forceful about it. This development is one which Canadian investors cannot ignore.

On behalf of the Board,
Yours sincerely,

Norman Short

Norman Short

GUARDIAN CAPITAL GROUP LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

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	FOR THE TWELVE MONTHS ENDED MARCH 31st		FOR THE THREE MONTHS ENDED MARCH 31st	
	1975	1974	1975	1974
REVENUE:				
Management fees - basic	$ 1,178,936	$ 1,407,247	$ 310,023	$ 364,305
- supplementary	314,343	41,330	82,551	29,718
Interest and dividends	340,081	265,835	60,057	55,855
Sales charges (net)	40,622	45,345	13,192	21,340
	1,873,982	1,759,757	465,823	471,218
Expenses	1,161,584	1,261,519	298,926	305,691
Operating Profit	712,398	498,238	166,897	165,527
Profit on sale of investments	98,758	426,147	54,318	269,575
Earnings before tax	811,156	924,385	221,215	435,102
Provision for income taxes	368,079	352,786	86,401	159,681
	443,077	571,599	134,814	275,421
Minority Interest	(7,947)	4,126	(5,261)	1,189
	435,130	575,725	129,553	276,610
Equity in earnings of associated companies	21,725	-	1,996	-
Net earnings for period	$ 456,855	$ 575,725	$ 131,549	$ 276,610
Earnings per share	$ .28	$ .36	$ .08	$ .17

not considered extra gain

above

(3 months in notes below)